

**Paul Pacter
Director of Standards for SMEs
International Accounting Standards Board
30 Cannon Street,
London EC4M 6XH, United Kingdom**

Dear Paul,

Please find below, responses to the questions posed in the Discussion Paper: “Preliminary Views on Accounting Standards for Small and Medium-sized Entities”.

With Kind Regards,

**David Raggay,
Member,
IASB Advisory Panel on
Small and Medium-sized Entities**

Discussion Paper: “Preliminary Views on Accounting Standards for Small and Medium-sized Entities”.

Question 1a. Do you agree that full IFRSs should be considered suitable for all entities? If not, why not?

Yes, I agree, with the understanding, as set out in para. 9 of the Preface and elsewhere, that the focus of full IFRS is on general purpose financial statements of profit-oriented entities.

Question 1b. Do you agree that the Board should develop a separate set of financial reporting standards suitable for SMEs? If not, why not?

Yes, I agree.

Question 1c. Do you agree that IASB Standards for SMEs should not be used by publicly listed entities (or any other entities not specifically intended by the Board), even if national law or regulation were to permit this? Do you also agree that if the IASB Standards for SMEs are used by such entities, their financial statements cannot be described as being in compliance with IFRSs for SMEs? If not, why not?

Yes, I agree.

Question 2. Are the objectives of IASB Standards for SMEs as set out in preliminary view 2 appropriate and, if not, how should they be modified?

The objectives are appropriate with the possible exception of (c). If using the same conceptual framework as full IFRS implies that no measurement modifications may be permitted, then this objective should be re-examined

Question 3a. Do you agree that the Board should describe the characteristics of the entities for which it intends the standards but that those characteristics should not prescribe quantitative ‘size tests’? If not, why not, and how would an appropriate size test be developed?

Yes, I agree. Due to differing sizes of economies, it would be very difficult to prescribe size tests which adequately capture SMEs in different countries. This is best left to the individual jurisdictions who will be guided by qualitative factors.

Question 3b. Do you agree that the Board should develop standards that would be suitable for all entities that do not have public accountability and should not focus only on some entities that do not have public accountability, such as only the relatively larger ones or only the relatively smaller ones? If not, why not?

Yes, I agree that the “public accountability” divide is a feasible solution”

Question 3c. Do the two principles in preliminary view 3.2, combined with the presumptive indicators of ‘public accountability’ in preliminary view 3.3, provide a workable definition and appropriate guidance for applying the concept of ‘public accountability’? If not, how would you change them?

Yes, a workable definition has been provided.

Question 3d. Do you agree that an entity should be required to use full IFRSs if one or more of the owners of its shares object to the entity’s preparing its financial statements on the basis of IASB Standards for SMEs. If not, why not?

Yes, I agree.

Question 3e. Do you agree that if a subsidiary, joint venture or associate of an entity with public accountability prepares financial information in accordance with full IFRSs to meet the requirements of its parent, venturer or investor, the entity should comply with full IFRSs, and not IASB Standards for SMEs, in its separate financial statements? If not, why not?

No, I do not agree. The format of information prepared for group reporting purposes may not be identical to that necessary for preparing a full set of financial statements which are primarily meant for external parties. In consequence, the decision as to whether or not it is necessary for the subsidiary, joint venture or associate to prepare separate financials based on full IFRS should be left to the discretion of the entity.

Question 4. Do you agree that if IASB Standards for SMEs do not address a particular accounting recognition or measurement issue, the entity should be required to look to the appropriate IFRS to resolve that particular issue? If not, why not, and what alternative would you propose?

Yes, I agree that the entity should be required to look to the appropriate IFRS for guidance. In the absence of an appropriate IFRS, reference should be made to other authoritative literature, including the GAAP of other countries.

Question 5a. Should an SME be permitted to revert to an IFRS if the treatment in the SME version of the IFRS differs from the treatment in the IFRS, or should an SME be required to choose only either the complete set of IFRSs or the complete set of SME standards with no optional reversion to individual IFRSs? Why?

For purposes of comparability of financial statements of individual SMEs over time and across SMEs, an SME should be required to choose only either the complete set of IFRSs or the complete set of SME standards.

Question 5b. If an SME is permitted to revert to an IFRS, should it be:

- (a) required to revert to the IFRS in its entirety (a standard-by-standard approach);**
- (b) permitted to revert to individual principles in the IFRS without restriction while continuing to follow the remainder of the SME version of the IFRS (a principle-by-principle approach); or**
- (c) required to revert to all of the principles in the IFRS that are related to the treatment in the SME version of that IFRS while continuing to follow the remainder of the SME version of the IFRS (a middle ground between a standard-by-standard and principle-by-principle approach)?**

Please explain your reasoning and, if you favour (c), what criteria do you propose for defining ‘related’ principles?

Not applicable. See response to 5a above.

Question 6. Do you agree that development of IASB Standards for SMEs should start by extracting the fundamental concepts from the Framework and the principles and related mandatory guidance from IFRSs (including Interpretations), and then making modifications deemed appropriate? If not, what approach would you follow?

Yes, I agree.

Question 7a. Do you agree that any modifications for SMEs to the concepts or principles in full IFRSs must be on the basis of the identified needs of users of SME financial statements or cost-benefit analyses? If not, what alternative bases for modifications would you propose, and why? And if so, do you have suggestions about how the Board might analyse the costs and benefits of IFRSs in an SME context?

Yes, I agree.

Question 7b. Do you agree that it is likely that disclosure and presentation modifications will be justified on the basis of user needs and cost-benefit analyses and that the disclosure modifications could increase or decrease the current level of disclosure for SMEs? If not, why not?

Yes, I agree.

Question 7c. Do you agree that, in developing standards for SMEs, the Board should presume that no modification would be made to the recognition or measurement principles in IFRSs, though that presumption could be overcome on the basis of user needs and a cost-benefit analysis? If not, why not?

No, I do not agree.

The Board has accepted the premise that modifications to full IFRS being contemplated for SMEs will be based on user needs and cost-benefit considerations. If it is likely that disclosure and presentation modifications will be justified based on such user needs and cost-benefit analysis, then it is even more likely that measurement modifications will meet these criteria. Difficulty and expense in measurement, coupled with lack of usefulness of the resulting information to users, is a major user criticism of full IFRSs. There is a risk therefore that SME standards (without measurement modifications) will face the same criticisms but even more so since the primary objectives of these standards include the following:

Preliminary view 2 – Objectives of IASB Standards for SMEs. Financial reporting standards for SMEs should:

- (b) focus on meeting the needs of users of SME financial statements;*
- (d) reduce the financial reporting burden on SMEs that want to use global standards;*

It is felt that the lack of measurement concessions would make financial statements prepared on the basis of SME standards largely irrelevant to the intended beneficiaries.

Furthermore, it does not appear necessary in the case of measurement modifications to introduce a rebuttable presumption which may be overcome on the basis of user needs and cost-benefit analysis, when these are the precise grounds permitted with respect to presentation and disclosure modifications. The presumption that there will be no recognition and measurement modifications therefore appears to represent an unexplained bias towards this outcome.

Question 8a. Do you agree that IASB Standards for SMEs should be published in a separate printed volume? If you favour including them in separate sections of each IFRS (including Interpretations) or some other approach, please explain why.

Yes, I agree.

Question 8b. Do you agree that IASB Standards for SMEs should be organised by IAS/IFRS number rather than in topical sequence? If you favour topical sequence or some other approach, please explain why.

The IASB standards for SMEs should be organized by IAS/IFRS number, to facilitate comparison with and reference to full IFRS.

Question 8c. Do you agree that each IASB Standard for SMEs should include a statement of its objective, a summary and a glossary of key terms?

Yes, I agree.

Question 9. Are there any other matters related to how the Board should approach its project to develop standards for SMEs that you would like to bring to the Board's attention?

In developing countries, the lack of deep and liquid markets in corporate bonds, Government bonds and in shares, currently present difficulties in the application of certain standards, in particular, IAS 19, IAS 39, IFRS 2 and IFRS 4. It is hoped that sufficient guidance would be provided in the SME versions of these standards to take account of these circumstances in order to properly meet objective "a" as per Preliminary view 2 – Objectives of IASB Standards for SMEs. This objective reads:

Financial reporting standards for SMEs should:

(a) provide high quality, understandable and enforceable accounting standards suitable for SMEs globally;